

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3141-01
Bill No.: HB 1181
Subject: Business and Commerce; Gambling; Lotteries.
Type: Oversight
Date: December 19, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Lottery Proceeds for Education Fund	(\$16,500,000)	(\$28,875,000)	(\$41,250,000)
Lottery Enterprise Fund	(\$66,000,000)	(\$94,875,000)	(\$123,750,000)
Total Estimated Net Effect on <u>All</u> State Funds	(\$82,500,000)	(\$123,750,000)	(\$165,000,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

The **Missouri Lottery Commission (LOT)** stated that according to advertising studies and advertising experiences in the lottery business, there is a ten-to-one return of revenue received versus advertising dollars spent. This means that 10 times LOT's advertising budget of \$8.25 million will equal the gross sales loss in the first year, at a minimum. In addition, subsequent years' sales losses will increase from a range of 15 to 20 times the current advertising budget due to a loss of sales momentum, compounding the prior year's loss at a time when the lottery is facing increased competition for discretionary spending. LOT stated that net losses shown take into account that the \$8.25 million lottery advertising budget will not be spent. This amount is netted against the profit loss each year (profits are estimated at 30% of sales). LOT estimated this proposal would result in losses of \$16,500,000 in the first year, \$28,875,000 in the second year, and \$41,250,000 in the third year to the Lottery Proceeds for Education Fund. LOT also states that these losses are considered minimums and actual losses could be significantly higher.

Officials from the **Office of Administration, Budget and Planning (BAP)** did not respond to our request for fiscal impact. However, in response to similar legislation from last year, BAP stated that removing the lottery's ability to advertise will result in a large loss to the Lottery Proceeds for Education Fund.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
LOTTERY ENTERPRISE FUND			
Loss of lottery sales	(\$82,500,000)	(\$123,750,000)	(\$165,000,000)
Transfer to Lottery Proceeds for Education Fund	<u>\$16,500,000</u>	<u>\$28,875,000</u>	<u>\$41,250,000</u>
ESTIMATED NET EFFECT ON LOTTERY ENTERPRISE FUND	<u>(\$66,000,000)</u>	<u>(\$94,875,000)</u>	<u>(\$123,750,000)</u>

LOTTERY PROCEEDS FOR EDUCATION FUND

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
Transfer from Lottery Enterprise Fund	(\$16,500,000)	(\$28,875,000)	(\$41,250,000)

ESTIMATED NET EFFECT ON LOTTERY PROCEEDS FOR EDUCATION FUND	<u>(\$16,500,000)</u>	<u>(\$28,875,000)</u>	<u>(\$41,250,000)</u>
--	------------------------------	------------------------------	------------------------------

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal will have a significant fiscal impact on small businesses who are lottery retailers, as they will experience a decrease in the amount of commissions/incentives they receive due to overall sales losses. The Missouri Lottery Commission estimates lottery retailers will lose \$5,156,000 in the first year, \$7,734,000 in the second year, and \$10,312,000 in the third year, as retailer commissions and incentives are approximately 6.3% of sales.

DESCRIPTION

This proposal prohibits anyone from advertising on television, radio, or in newspapers to promote the state lottery. All other advertising to promote the state lottery is limited to such information as the type of lottery game, prize structure, and pay-out ratios. The proposal also prohibits advertising from being designed to induce people to participate in the state lottery.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Missouri Lottery Commission
 Office of Administration
 Budget and Planning

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive script.

Jeanne Jarrett, CPA
Director

December 19, 2001